Panel Seeks to Curb Tax Breaks Abroad

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Rep. Sam Gibbons (D-Fla.) looked at the well-groomed tax lawyers and lobbyists in the spectators' section of the House Ways and Means Committee room last week and said wryly, "That's the best-looking collection of $300 suits I've seen out here in a long time."

The numerous expensive lawyers and lobbyists were representing some of the largest corporations in America, the so-called multinationals. The committee, as part of the tax bill it is writing, had just taken up the subject, "U.S. taxation of foreign-source income."

To understand what was at stake, you can look at what is known of the U.S. taxes paid last year by one multinational corporation, Westinghouse Electric.

The nominal corporate tax rate is 48 per cent. Westinghouse, according to a study by the tax-reform group Tax Analysts and Advocates, had net income worldwide last year of $232.5 million, on which it paid U.S. income taxes at a rate of only 3.4 per cent.

That means the company paid about $8 million in taxes instead of about $111 million. The savings were all made legally, through so-called preferential provisions in the tax law. Half the saving, according to the Tax Analysts and Advocates study, was made through provisions available to all corporations. The other half, more than $50 million, came from provisions available only to companies with "foreign-source income," those that do some of their business abroad. The Tax Analysts' study was based on Westinghouse figures filed with the Securities and Exchange Commission.

There are three big sections of the tax code that help lower taxes on corporate income earned abroad. Reformers on Ways and Means were threatening to wipe out or change all three.

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TAX, From A1

One is the foreign tax credit. A corporation is allowed to reduce its U.S. income taxes dollar for dollar for income taxes paid abroad; what it pays there it does not have to pay here. This credit now save corporations more than $6 billion a year, and saved Westinghouse about $30 million, according to the study.

The companies say these tax-saving provisions are essential if they are to compete abroad, and thus keep providing jobs here at home producing goods for export. Tax reformers such as Gibbons regard the provisions excessive and ineffectual.

Both sides won some victories in the two days the committee spent on these three isusues.

The reformers had wanted to put some limitations on the deferral provision, so a corporation could only defer taxes on half its foreign income. The corporations won on this issue; deferral was preserved intact.

The reformers, however, did manage to put some restrictions on the DISC provision, though they failed to kill it entirely. Instead of being worth $1.5 billion to exporting companies next year, it would be worth only about $900 million, and instead of $3.9 billion by 1986, only $2.3 billion.

On the tax credit, the committee simply did some tidying up that could cost corporations about $130 million.

Ways and Means plans to include these and other complicated tax changes in a bill extending last year's tax cut, which will otherwise expire Dec. 31.

But whether these reforms will stay in the tax cut bill as that deadline approaches or be tossed aside, no one is sure yet. The committee hopes to have the bill out by late October, but it must then still go to the House floor and then start all over in the Senate.

A second provision says that corporations do not have to pay taxes on foreign earnings until those earnings are repatriated. It is a tax deferral rather than reduction, but sometimes the deferral turns out to be permanent because the money is reinvested abroad and never brought home. Deferral now saves all corporations about $600 million a year; the study says Westinghouse made no use of it last year.

The third and newest provision in the law is called DISC, for domestic international sales corporation. The law allows a firm that sets up a DISC to defer indefinitely taxes on half the profits a company makes from sales abroad. DISC, put in the law in 1971 to stimulate exports, now saves corporations about $1.5 billion a year in taxes, and saved Westinghouse more than $25 million last year.